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TO AMEMBASSY LIMA PRIORITY

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E.O. 11652: GDS

TAGS: EIND, EINV, EMIN, PFOR, PE

SUBJECT: MARCONA - APRIL 27 WRAP-UP

1. SUMMARY: MAIN PURPOSE OF FINAL DAY'S ACTIVITIES WAS TO ASSESS OVERALL SITUATION AND TO ADVANCE CONTRACT NEGOTIATIONS BETWEEN MARCONA AND GOP SALES AND SHIPPING ENTITIES. REMAINING MEMBERS OF US GROUP (EINAUDI, GANTZ, MARESCA), AMBASSADOR AND ECON COUNSELOR MET WITH FONMIN DE LA FLOR IN SESSION WHICH HELPED SOMEWHAT TO CLEAR THE AIR BUT PRODUCED NO NEW DEVELOPMENTS; DIFFERENCES ON FREIGHT CONTRACT REMAIN AS GREAT AS EVER. SIMILAR SESSION WITH DE LA PUENTE REAFFIRMED THAT THERE IS NO SIGNIFICANT DISAGREEMENT ON TEXT OF NOTE OR JOINT COMMUNIQUE. MEETING WITH FONMIN BARUA AND CENTRAL BANK DIRECTOR SANESTEBAN CONFIRMED US GROUP'S FEARS THAT GOP IS IN SERIOUS FINANCIAL

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DIFFICULTY AND WILL HAVE EXTREME DIFFICULTY COMING UP

WITH \$33 MILLION CASH. MARCONA OFFICIALS WERE ALSO BRIEFED ON STATUS OF SITUATION, INCLUDING MAW'S DISCUSSIONS WITH COMMERCE MINISTER ARIAS THE NIGHT BEFORE, AND INDICATED NO OBJECTIONS TO PACKAGE. HOWEVER, THERE WERE NO SUBSTANTIVE MEETINGS WITH MINPECO OR CPV. PRIOR TO DEPARTURE, DE LA PUENTE WAS ASKED TO ENCOURAGE MINPECO AND CPV TO WORK WITH MARCONA TO ELIMINATE ALL RESOLVABLE DIFFICULTIES CONCERNING THE ORE SALES AND FREIGHT CONTRACTS IN COURSE OF WEDNESDAY

SESSIONS. IT WAS ALSO AGREED THAT SOME TIME FOR REFLECTION WAS NOW NECESSARY, BUT NO DATES FOR A NEW VISIT WERE SET, ALTHOUGH DE LA FLOR EXPLICITLY INDICATED PERUVIAN READINESS TO REINITIATE NEGOTIATIONS IMMEDIATELY FOLLOWING MAY 4 CABINET MEETING. END SUMMARY.

2. US GROUP BRIEFED BRADFIELD AND BILHORN OF MARCONA (FURTH WAS ABSENT) TUESDAY MORNING TO RELATE TO THEM MAW'S DEPARTING DISCUSSION WITH ARIAS, AND TO PLAN NEXT STEPS. MARCONA REPRESENTATIVES NOT ONLY INDICATED APPROVAL OF THIS PACKAGE, BUT SEEMED SURPRISED THAT MORE CONCESSIONS HAD NOT BEEN MADE. ALTHOUGH BILHORN VOICED DOUBT AS TO WHETHER MINPECO, AND ESPECIALLY CPV, WOULD BE PREPARED TO DO SO, HE INDICATED MARCONA'S WILLINGNESS TO CONTINUE TO WORK TO RESOLVE DIFFICULTIES ON CONTRACTS. BRADFIELD VOICED SOME CONCERN THAT FURTHER CONCESSIONS WOULD BE REQUIRED ON CASH. US GROUP ALSO STRONGLY URGED MARCONA TO PRESENT FORMAL SUBMISSIONS TO THE PERUVIAN TAX AUTHORITIES AS SOON AS THEY ARE FINISHED. THIS WOULD BE INDICATION OF MARCONA'S GOOD FAITH AND COULD HELP PREVENT PACKAGE FROM COMING APART.

3. DE LA PUENTE CALLED LATE MORNING INDICATING THAT HE WAS MEETING WITH SEVERAL MINISTERS AND THEIR ADVISERS TO CONSIDER MAW-ARIAS PROPOSALS OF PREVIOUS MEETING. HE SUGGESTED AFTERNOON SESSION. ACCORDINGLY, US GROUP, AMBASSADOR, AND ECONOMIC COUNSELOR MET BRIEFLY WITH DE LA PUENTE AND DELGARDO TO REVIEW NOTE AND COMMUNIQUE. DE LA PUENTE INDICATED THAT US DRAFTS ARE ACCEPTABLE. SOMEWHAT STRAINED 40-MINUTE SESSION WITH DE LA FLOR FOLLOWED.

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4. DE LA FLOR DEPLORED IMPASSE ON CONTRACTS BETWEEN MINISTERS AND MAW PREVIOUS DAY. HE SAID BOTH SIDES SHARED RESPONSIBILITY FOR INCONCLUSIVE OUTCOME, WHICH HE SAID CONSTITUTED "SET BACK" WITH RESPECT TO PREVIOUS ROUND AND SUGGESTED THAT IT WAS TIME TO "CAREFULLY REVIEW WHERE WE STOOD." MUCH DISCUSSION CENTERED ON NATURE AND EXTENT OF MISUNDERSTANDING OVER APRIL 5 AGREEMENT AND FAILURE TO PUT IT JOINTLY INTO WRITING. DE LA FLOR REITERATED HIS

UNDERSTANDING THAT 3.1 MILLION TONS WERE TO HAVE BEEN INCLUDED IN THE CALCULATIONS OF THE COMPENSATION DUE MARCONA THROUGH FREIGHT CONTRACTS. WHILE CAREFULLY STATING THAT HE HAD NOT HIMSELF BROUGHT THE MATTER UP, DE LA FLOR AGREED WITH DE LA PUENTE'S OBSERVATION THAT MANY IN GOP FELT FREIGHT AND OTHER CONFLICTS HAD ARISEN BECAUSE OF USG RE-INTERPRETATION OF AGREEMENT UNDER PRESSURE FROM MARCONA. US TEAM STRESSED ITS INTERPRETATION OF AGREEMENT HAD BEEN RECORDED AND TRANSMITTED BOTH TO USG AND MARCONA

IMMEDIATELY FOLLOWING APRIL 5 SESSION WITHOUT ANY EXTERNAL INFLUENCE AND REFLECTING ONLY ITS UNDERSTANDING OF THE OFFER MADE BY THE MINISTERS. FURTHER AND PERHAPS DEEPER SOURCE OF GOP CONCERN THEN BECAME CLEAR WHEN DE LA FLOR SAID HIS CALCULATIONS OF MANNER IN WHICH USG WAS INTERPRETING AGREEMENT BROUGHT COMPENSATION TO MARCONA OVER \$60 MILLION. US TEAM OBSERVED THAT IN FACT, EVEN SETTING ASIDE RISK, THE TIME COST OF MONEY AND THE COSTS MARCONA WOULD INCUR IN MARKETING ORE WOULD REDUCE SETTLEMENT TO MID 50'S.

5. AMBASSADOR AND US TEAM THEN MET WITH MINISTER OF FINANCE BARUA, CENTRAL BANK PRESIDENT SANESTEBAN, AND FINMIN PUBLIC FINANCE HEAD REUS. US SIDE INDICATED THAT CASH THE MOST IMPORTANT PORTION OF PACKAGE AND REPORTED ON MARCONA'S CONVERSATIONS WITH WELLS FARGO, INDICATING THAT POSSIBLY CITY BANK OR MANUFACTURERS HANOVER MIGHT BE PREPARED TO PROVIDE EXPORT FINANCING FOR IRON ORE CONTRACTS. PERUVIANS ANSWERED THAT THIS WAS NOT VIABLE BECAUSE THEY WERE ALREADY USING THEIR IRON ORE STOCKS FOR PREFINANCING. THEY HAD HOPED, SAID BARUA, THAT THE UNITED STATES GOVERNMENT WOULD BE PREPARED TO UNDERTAKE A JOINT APPROACH TO THE BANKS TO ASSIST IN OBTAINING SPECIAL FINANCING FOR

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THE MARCONA SETTLEMENT. ABSENT SUCH COOPERATION, SAID BARUA, THEY WOULD THEMSELVES ATTEMPT TO GET AN ADVANCE ON THE TOTAL \$400 MILLION REFINANCING PACKAGE THEY WERE NEGOTIATING FOR BALANCE OF PAYMENTS PURPOSES SO AS TO PAY MARCONA. BARUA STRESSED THE FACT THAT GOP WOULD OBTAIN THE FUNDS NECESSARY TO COMPENSATE MARCONA, BUT SPOKE OF THE AMOUNT AT \$30 OR \$33 MILLION, INDICATING HIS AWARENESS THAT THE \$3.6 MILLION INTRA-COMPANY PAYMENTS ISSUE IS NOT FULLY RESOLVED. US GROUP EXPLAINED THAT THERE WERE LIMITS ON MR. MAW'S ABILITY TO BE HELPFUL (E.G., THE USG WOULD NOT BE PREPARED TO USE ITS INFLUENCE WITH THE BANKS TO EXTEND FINANCIAL ASSISTANCE), BUT SAID THAT WITHIN THESE LIMITS HE WAS PREPARED TO ASSIST SANESTEBAN IN CONTACTING NEW YORK BANKERS WHO MIGHT BE WILLING TO PROVIDE BRIDGE LOAN OR AN ADVANCE ON THE MAJOR FINANCING PACKAGE. SANESTEBAN SAID

HE WOULD CALL MAW NEXT WEEK FROM LONDON. BARUA INDICATED SOME CONCERN THAT EFFORTS TO OBTAIN \$33 MILLION NOW COULD ADVERSELY AFFECT GOP'S CHANCES FOR THE \$400 MILLION PLUS THEY WILL BE SEEKING DURING NEXT FEW MONTHS.

6. IN COURSE OF EINAUDI-DE LA PUENTE TELEPHONE CONVERSATION TUESDAY EVENING, LATTER AGREED TO MAKE EFFORT TO SEE THAT MINPECO AND CPV WOULD BE PREPARED TO WORK OUT AS MANY NON-KEY ISSUES AS POSSIBLE IN COURSE OF MEETINGS WITH

MARCONA TEAM. (THIS FOLLOWED REPORT FROM MARCONA THAT NO MEETINGS HAD BEEN HELD THAT AFTERNOON, DESPITE ONE HAVING BEEN SCHEDULED.) BOTH AGREED THAT A PERIOD OF REFLECTION NOW NECESSARY. DESPITE SOME URGING FROM DE LA PUENTE, EINAUDI REFUSED TO COMMIT US TEAM TO SPECIFIC DATES OR PROCEDURE FOR RETURN TO LIMA, SAYING AMBASSADOR WOULD BE IN TOUCH. DE LA PUENTE PROMISED TO PROVIDE EMBASSY WITH SPANISH VERSIONS OF NOTES AND COMMUNIQUE AND FOR TRANSMITTAL TO WASHINGTON. SISCO

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